

Independent Rates Oversight Committee – IROC

February 21, 2012

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1. Roll Call

Chairperson Peugh called to order the regular meeting of the IROC at 9:35 a.m. Monica Foster conducted a roll call and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Jim Peugh, Chair	X	
Don Billings	X	
Christopher Dull		X
Andy Hollingworth	X	
Jeff Justus	X	
Jack Kubota	X	
Colin Murray	X	
Michael Ross	X	
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Gail Welch	X	
Ex-Officios		
Augie Caires, Metro JPA	X	
Ken Williams, City 10		X

Department representatives: Roger Bailey, Director; Alex Ruiz, Assistant Director; and Tom Zeleny, Deputy City Attorney

2. Non-Agenda Public Comment

None.

Alex Ruiz, Assistant Director, reminded members of the audience that the posted reserved parking spaces are for Committee Members only. Also, due to frequency disturbances with the audio system experienced at last months meeting, he asked those who have laptops, smart-phones, PDAs or other electronic devices to please disable them during the meeting.

3. Approval of Draft Minutes from January 17, 2012

Chairperson Peugh asked for a motion to approve the Minutes from the last meeting. Vice Chair Hollingworth moved to approve the Minutes as submitted. Member Welch seconded, with Members Billings, Murray, Ross and Stallard-Rodriguez abstaining, all other members were in favor.

4. Chair Updates – Chairperson Peugh

- Conflict of Interest forms are due in April. He asked Members to complete necessary forms on time.
- In reference to web article regarding the Delta Bypass, he asked if the Department could provide information related to how this will be paid. Roger Bailey indicated the Department can invite a representative from the County Water Authority to provide a presentation to IROC.

5. **City Staff Updates**

Roger Bailey

- Referred to an article published in the Union Tribune (UT) regarding a build-up of surplus Public Utilities funds with no planned obligations. He assured IROC that the article is inaccurate and misleading. Fundamentally, he wants the public to understand that this money is not sitting without purpose, and the Department will be responding to this assertion in the near future. He believes the stated \$630M was taken out of context from the City's CAFR website.

Vice Chair Hollingworth indicated to Mr. Bailey that he viewed yesterday's media coverage and disagrees with his comments during the interview. He also commented that in his perspective, the rate payers need to know when the surplus of money can be spent, when the revenues are collected from the rate payers, and when bonds are sold, which interest is paid. He did not believe this was addressed in the interview. Member Billings stated he does not believe the article in the UT was written by the UT nor edited by their editor, but was simply purchased content. Vice Chair Hollingworth disagreed.

Ann Sasaki

- Update on sewer spills YTD: 8 compared to 11 last year. Continuing to make progress with the CIP program and cleaning program to reduce the spills.
- Shared an award the Waste Water Collection Division received this month from the California Water Environment Association as the *Large Collection System of the Year* in the San Diego region. The City has been submitted to the state-wide competition held in April.

Jim Fisher

- Update on water main breaks YTD: 20 compared to 17 last year, but no major incidents.
- Otay Water Treatment Plant was recognized in CY 2011 by the Partnership for Safe Drinking Water, a partnership between EPA, AWWA, and a number of other organizations that recognize utilities that go beyond the regulatory requirements in regards to safe water. Otay was awarded the Director's Award for the optimization and operation of the plant by the partnership.

Alex Ruiz

- Going before the NR&C at Council with an authorization to enter into an agreement with Imperial Beach (Municipal Transportation Agreement) on the sewer side.
- Also going before NR&C is the status of the Call Center.

6. **Update on the Water Purification Demonstration Project**

Marsi Steirer, Project Director, stated there was great press in the New York Times last week and that the Project is featured on the front page, and was picked up by several other newspapers throughout the United States. Ms. Steirer introduced Greg Wittereau,

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Treatment Plant Engineer with CDMSmith. He referred to provided handouts, and presented information related to the first quarter results of the Testing and Monitoring Program.

Mr. Wittereau discussed the objectives set for the Testing and Monitoring Plan (Plan) and gave the first quarter results overview. He indicated results found that the plant produced an exceptional water quality which met all of the project goals, and the purified water met all drinking water standards. He then gave an overview of drinking water standards and noted we were below CTR limits for all of the compounds, except one detectable, and above CTR limit in the purified water, and only two for imported water. This will continue to be monitored.

Last, Mr. Wittereau noted one of the things that are focused on is integrity monitoring of each of the processes. In summary, the Advanced Water Purification process is effective at producing water that meets all drinking water standards, and the treatment equipment is functioning well. It was noted the California Toxics Rule requirements may not be totally applicable to the full-scale concept.

Ms. Steirer finished by listing some comments shared at various public outreach tours. She indicated there have been many outside of the county guests, as well as international guests. The statistics to date for the 140 tours show approximately 1800+ guests. She also added there is a virtual tour on YouTube that is being viewed by many.

Member Billings commented that he is encouraged by the great results, and is very satisfied with the amount of public outreach, which is very important. Member Weber asked if an update can be given on the Modeling (Limnology Report) with the Reservoir. Ms. Steirer indicated it is almost complete, and there has been a series of panels and meetings with various groups. She added that a high level presentation can be brought forward with the results soon.

Member Welch asked what has been learned with this size project to be carried over if it goes full scale. Ms. Steirer indicated the quality of the water coming from North City is very good to start with, so the equipment is running exceptional. All is going well, and comparable to the Orange County results.

Chairperson Peugh asked if numbers can be provided related to the number of hits on the various websites in regard to public outreach. Ms. Steirer concurred and will bring back to upcoming Public Outreach subcommittee and the full IROC meetings.

7. Implementation of Advance Metering Infrastructure (AMI) System

David Akin, Compliance and Metering Manager, referred to his presentation and gave a brief review of past efforts beginning in FY06. Starting in FY10, the SAP-CCS implementation began. In FY11, the RFP for AMI consultant was issued and SAIC was selected as the consultant.

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He explained that very clear objectives and guiding principles are used to ensure the project's success. This project is a fixed or mobile network throughout the city, and will be monthly meters, with one bi-monthly route. Future meter installations can be AMI. This approach allows the department to be sure the network works well, and the data is coming through correctly. He then reviewed the fiscal considerations, which will not impact customer rates and will pay for itself through savings and benefit from the program.

Mr. Akin mentioned the balanced approach and listed the benefits of AMI, some of them being cost savings, non-revenue water, excellent customer service, and conservation. He explained this system will allow staff to talk to their customers with real or near-real time granular data which will provide customers with a clear understanding of their bill, consumption, and conservation.

Last, he requested the support for advertisement of the RFP for implementation of an AMI System. He noted the next steps would be to submit AMI system contract for approval and present to the Natural Resources & Culture Committee on March 21, bringing it to Council at a later date.

Mr. Billings asked what other agencies have this type of technology deployed, and are the savings validated. Mr. Akin indicated yes, they are validated by others using this technology such as Washington, D.C., City of Houston, Padre Dam, etc. and they have found it very positive and rewarding.

Ex-Officio Member Caires mentioned Padre Dam is 2 years into it, and is expanded to the entire service area. He added it has worked very effectively, has saved money on target. Very importantly, the customers are very satisfied. Member Kubota added the City of Carlsbad is underway with this type of program currently, and is very positive in the community.

Action: Chairperson Peugh asked for a motion. Member Billings moved to support the issuance of the RFP and proceed. Member Hollingworth seconded. With Member Dull absent, Member Ross abstaining, all others were in favor to support as stated.

8. Update on the Public Utilities Customer Service Call Center

Delia Dee, Compliance and Metering Manager of the Customer Support Division gave a brief update on the status of the department's deployment of the Customer Care Solution (CCS) system. Ms. Dee provided an overview of services provided by the call center and noted that with CCS the number of customers enrolled in the customer portal has increased by 44% over those enrolled in the old system. She indicated the presentation would be an update to past presentations given to the Public Outreach Subcommittee as well as the full IROC.

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Ms. Dee reviewed the magnitude of services provided by the call center related to customer service, payments, emergency repairs, collections and other billing activities. She indicated that overall CCS is performing well. With minimal exceptions, the system is performing the way it was designed and built, and she also listed the challenges being overcome short of seven months after go-live. The principal challenges, included restoring service levels for customer access to call center agents, workload backlogs, and improving call center morale and end-user confidence in the system. She further noted that significant improvements have been made to overcome these challenges, including prioritization of outstanding CCS work tickets; assigning a Customer Care Liaison to resolve escalated phone calls; hiring and training temporary staff; increasing phone capacity; improving call handling; and offering targeted training and team building. She then reviewed the call center's current service levels as well as the performance targets to be met by the end of this fiscal year.

The performance targets will reestablish baseline performance as of June 2011 for the call center's average speed of answer, longest speed of answer and call duration. Ms. Dee indicated that improvements in these key performance indicators are being observed at the same time that the volume of calls pushed to alternative channels have also significantly decreased.

Member Webster asked if there is a feature for customers to leave their phone number to receive a call back. Ms. Dee indicated yes, this is a new feature that became available in January. These calls are returned within 12 to 24 hours. Member Ross asked if the call abandonment rate is being measured. Ms. Dee stated yes, it is measured and showing significant reductions.

Chairperson Peugh asked if the costs associated with all of the improvements can be provided. Ms. Dee concurred. Michael Vogl, Deputy Director of Customer Support joined Ms. Dee and added that expenditures related to these measures are within the division's budget for this year. This is being achieved by cutting expenses in other areas and due to the division's vacancy rate. He also addressed the abandonment rate subject, this was at about 40% and now down to 32%, so it is on a decline.

Alex Ruiz, Assistant Director, commended Ms. Dee and Mr. Vogl for their hard work and dedication during this process.

9. Status of the Cost of Service Study Consultant Procurement

Lee Ann Jones-Santos, Deputy Director, along with Jeanne Cole, Program Manager of Rates & Finance, provided a brief status update on the Cost of Service Study (COSS). They provided a handout with additional information as well. Ms. Jones-Santos indicated the next step in this process is to notify the vendor and get Mayoral approval. The goal for the COSS is targeted to be completed in CY2012. She noted there will be 2 separate COSS because Water and Wastewater must be separate. In addition, there is a separate

study to determine the feasibility of instituting a water based budget rate structure, and additional information will be forthcoming.

Mr. Hollingworth indicated he would like to request the Consultant, when the financial model is designed, to include certain metrics, making sure the COSS is on track. He added also, a metric regarding unrestricted cash and investments would be helpful. Ms. Cole concurred.

10. Public Utilities presentation on Water and Sewer FY2008-FY2011 Rate Case Expenditures

Alex Ruiz presented the Rate Case associated with the Capital Improvement Program (CIP) from FY08-FY14.

Mr. Ruiz described the prior CIP Rate Case assumptions. He reviewed the “actual events” which showed lower construction costs, lower-than-anticipated inflation, greater use of low-interest SRF loans, increased use of grants, and a CIP ramp up in FY2008. Also, an on-going evaluation of CIP projects to ensure “best value” approach, which can generate a lot of savings.

He presented tables summarizing expenditures for the Water, Muni, and the Metro funds showing the Rate Case FY09-FY11 as well as the Actual FY08-FY11 and Actual plus Planned FY08-FY14. He pointed out when the 2007 Rate Case went forward on the Sewer side, it also included a portion of funding to reimburse prior CIP projects.

Mr. Ruiz listed highlights for the Water program for FY08-FY11, including pipeline replacement (75miles); and completed construction (53 miles). He said we have been transparent, and the regulators are aware of this and very supportive of our efforts to date. On the Sewer side, he highlighted sewer rehabilitation (115 miles) and sewer replacement (50 miles) projects. He noted that all compliance order and consent decree projects milestones have been met.

Mr. Sean Karafin, representing the San Diego Taxpayers Association (SDTPA), complimented Marsi Steirer and her staff for doing a great job with the Reuse Demonstration Project, and they are very much in support of. He also complimented David Akin’s group for a great job on the AMI Project, and are in support. He then referred to a recent letter to Roger Bailey from SDTPA, and compared information to a list of projects in the Rate Case. He indicated the two lists do not compare. First, he suggested receiving clarification on the list. Secondly, he asked if the surplus is not spent fast enough in an efficient manner, could the rates be reduced to what they were before the Rate Case.

Mr. Ruiz indicated the list can be discussed and clarified, and a written summary response to this particular element can be provided. Chairperson Peugh asked if the Ballot Measure should be looked at for this discussion. Mr. Ruiz indicated there are a

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couple of source documents that can be referred to and that this information is readily available.

Vice Chairperson Hollingworth indicated he may hold a Special Finance Subcommittee meeting on this subject in the coming months to address his concerns with the Water Rate Case funds and the Sewer Metro and Municipal Rate Case funds. Vice Chairperson Hollingworth devised a template of a Comprehensive Long Term Cash Flow Forecast he would like to share with the Department, and recommends this be implemented and maintained. Mr. Ruiz stated he appreciates the comments and would look forward to viewing the template.

Mr. Bailey indicated he just learned about the letter of reference from the SDTPA and will respond to the letter as well as the letter from Mr. Hollingworth. He reminded the public that we have to keep in mind this system is dynamic, and we must comply with Federal and State water quality regulations. He clarified the Cost of Service Study has all of these elements, and we have an opportunity to list all costs and have them itemized. It is a goal to have the COSS Consultant come to IROC at the onset of the study, to review the plans as soon as possible.

Member Welch asked Vice Chairperson Hollingworth if the template, he would like to have the Department follow, could make its way through the other members of the Finance Subcommittee before it is presented. Vice Chairperson Hollingworth indicated the template is from him personally, and would like to submit it. Mr. Bailey requested if the Department is going to take suggestions to present materials according to a template by the IROC, he would prefer it be brought before IROC so it can be followed up on properly. Member Billings concurred. Tom Zeleny, Deputy City Attorney, added it is up to the discretion of the Department.

11. State Revolving Fund – Low Interest Loans for the Metropolitan Biosolids Center (MBC) Dewatering Centrifuges Replacement Project

Jeanne Cole, Rates & Finance, gave an update of the latest State Revolving Fund Loan (SRF). She indicated an application has been submitted for \$12M which will finance the MBC Dewatering Centrifuge Project. She noted this loan realizes significant savings compared to the traditional 30 year bond financing. By utilizing the SRF Program, since the 2007 Rate Case, the Department and rate payers will recognize \$78M.

Ms. Cole recognized and commended her staff member Pam Carreon, as well as the rest of her staff, for efforts on this project. She added the Department has the in-house expertise to actually do these loans and is a great accomplishment. She then gave a brief overview of the Project.

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12. Subcommittee Reports:

- a. **Finance**
None.
- b. **Environmental & Technical**
None.
- c. **Public Outreach, Education & Customer Service**
None.

13. FY2011 IROC Annual Report Adoption

This item was heard following Item 10. Chairperson Peugh mentioned he added a section “Summary of Recommendation” to the previous Draft, and asked for comments. There were no comments. He then asked for comments/changes to the document. Those are as follows:

- Member Billings asked that the Appendices 1, 2, 4, and 5 of Attachment D reflect that figures listed as “net asset” or “financial ratio” are unaudited, as well as broken out separately.
- Member Billings asked if the source of the calculations on the said appendices is reflected as “IROC Calculations” so nothing is misrepresented.
- Member Welch would like the page number reference in the Key Recommendations section to be corrected to reflect the correct page numbers.

Chairperson Peugh asked for a motion to adopt the Report with said corrections. Member Billings moved, and Vice Chairperson Hollingworth seconded. With Member Dull absent, all others were in favor.

14. Invitation to IROC Members to participate in the upcoming Public Utilities Department Strategic Planning Sessions

John Gavares, Strategic Support Services Manager, invited representatives of IROC to join in this process, as done in the past. He stressed how appreciated it is, and how important it is as stakeholders to participate in this process. He indicated this year, focus will be on the development of strategic initiatives for FY13, and will be a simplified process.

He noted 4 workshops are scheduled from 8:30 a.m. – 1:00 p.m. at the Lake Murray Educational Training & Development Complex, each first Friday of the month starting on April 6. He asked for volunteers to respond by email if they are interested. Mr. Zeleny reminded the Committee if there is a quorum of the full IROC Members, or Subcommittee Members, the meetings will need to be noticed under the Brown Act.

Member Welch volunteered to participate.

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15. **Presentation: Second Quarter FY2012 Capital Improvement Program Report**

Mr. Hollingworth asked to review the materials presented and would rather bring to the March 19 Finance Subcommittee for discussion. Guann Hwang concurred.

16. **Metro/JPA – Report Out – Augie Caires**

Nothing to report at this time.

17. **Proposed Agenda Items for future IROC Meetings**

- Rate Case
- Capital Improvement Program
- Information related to the Delta Bypass Plan

18. **IROC Member’s Comments**

None

Chairperson Peugh adjourned the meeting 12:00 noon.

Minutes submitted by: Monica Foster